

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 28-29 November 2006

The Council decided to keep the NBP interest rates unchanged:

- reference rate 4.00% on an annual basis;
- lombard rate 5.50% on an annual basis;
- deposit rate 2.50% on an annual basis;
- rediscount rate 4.25% on an annual basis.

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Since the Council's meeting held in October 2006 the forecasts of economic growth for the years 2006-2007 have been slightly raised in the euro area and somewhat lowered in the United States. The forecasts of inflation in the euro area for the years 2006-2007 have remained unchanged, while inflation forecasts in the United States for the same period have been slightly revised downwards. October marked a slight decline in the annual growth of consumer prices in the euro area to 1.6% as compared with 1.7% in September. The annual rate of growth in the United States also decreased (to 1.3% from 2.1% y/y in September). The decline of inflation in the euro area and the United States has been largely driven by a decrease in crude oil prices. Since the October meeting of the Council the current price of crude oil and the oil price forecast for the years 2007 and 2008 have not changed significantly (according to the analysts polled by the Reuters).

The latest GUS data and information on GDP and investment growth signal that in 2006 Q3 the economic growth may be higher than 5.5%. In particular, according to GUS data the growth of corporate investment outlays in large and medium-size enterprises significantly accelerated (growth of 26.0% y/y in 2006 Q3 as compared with 15.6% y/y in the first half of 2006). GUS data for October 2006 on industrial output, construction and assembly production and retail sales indicate that high economic growth continues. The rise in industrial output in October 2006 exceeded the expectations of the NBP and external forecasters and reached 14.6% y/y (as compared with 11.7% y/y in September). In seasonally adjusted terms, the growth in industrial output in October amounted to 12.5 % y/y (as compared to 13.8% y/y in September). The growth in construction and assembly production accelerated for another consecutive month to 28.6% y/y, as compared to 21.1% y/y in September, and to 28.2% y/y as compared to 20.9% y/y in seasonally adjusted terms, thus exceeding the NBP's expectations. The still high growth rate of retail sales somewhat decreased (reaching 13.3% y/y in nominal terms as compared with 14.5% y/y in September).

The growth rate of lending to non-financial sector has been rising steadily and in October 2006 it reached 19.8% y/y. Since the second half of 2005, a high growth rate of consumer loans to households has been sustained and in October 2006 it amounted to 20.0% y/y. Also housing loans has been growing fast; in October 2006 their rate of growth reached 52.3%. Since April 2006 an acceleration in the growth of corporate lending has been observed. In October 2006 the rate of growth of credit to enterprises amounted to 10.1% y/y. Such a growth rate of corporate lending, combined with substantial enterprises' own funds resulting from their very good financial results in

NBP

the three first quarters of 2006, may point to a further rise in investment growth. Net earnings generated by non-financial enterprises in 2006 Q3 were by 31.4% higher than a year before.

Strong economic growth is accompanied by a rapid increase in labour demand. Since December 2004 the employment growth in the corporate sector has been accelerating –in October 2006 the growth of employment in enterprises amounted to 3.6% y/y hitting the highest level since the beginning of the 90s. According to BAEL (Labour Force Survey) preliminary data, in 2006 Q3 the rise in the number of people working in the economy amounted to 3.9% y/y (against 3.7% y/y in 2006 Q2). The number of people working outside private farming has been growing fast (growth by 6.9% as compared with 5.3% in 2006 Q2). In 2006 Q3 the unemployment rate according to BAEL fell to 13.0% as compared with 17.4% one year before. According to the labour office data, in October 2006 the registered unemployment rate slid to 14.9 % from 17.3% one year before. This rapid growth in the number of working persons and the significant decrease in unemployment was accompanied by a decline, in annual terms, in the economically active population, which has continued since 2006 Q1: in 2006 Q3 this figure fell by 1.2% in relation to 2005 Q3.

Economic growth is also accompanied by a high growth of wages. In the enterprise sector, in October 2006 nominal wages rose by 4.7% y/y as compared with 5.1% y/y in September (according to the NBP's estimates, after adjustment for the impact of shifts in one-off components of wages in certain sections, in October wages in enterprises grew by 5.6% y/y). In 2006 Q3 the rise in nominal wages in the economy accelerated to 5.0% y/y from 4.7% y/y recorded in 2006 Q2. According to preliminary estimates, the rise of unit labour costs in the economy (excluding private farming) in 2006 Q3 accelerated to 6.2% y/y (as compared with 4.5% y/y in 2006 Q2 and 2.7% y/y in 2006 Q1). In industry, in January-October 2006, the growth of labour productivity amounted to 10.2% y/y and was still higher than the growth of wages, which resulted in a drop of unit labour costs in this sector by 4.7% y/y. Strong economic growth which would not pose a threat to the achievement of the inflation target can only be sustained on the condition that the growth in wages does not outpace the growth in labour productivity. This requires strong and productivity-oriented corporate governance in enterprises, which is usually more easily attained under private ownership. This also requires wage discipline in the public sector.

In October 2006 the annual growth rate of consumer prices amounted to 1.2% as compared with 1.6% in September thus falling below the expectations of external forecasters and the NBP. The fall in the annual growth of consumer prices was primarily driven by a decline in fuel prices and lower than in the previous month growth of prices of food and non-alcoholic beverages. The majority of core inflation indicators fell slightly (in October they ranged between 0.8% y/y and 1.3% y/y, and net inflation reached 1.3%. November was another consecutive month which marked a rise in inflation expectations of households (1.7% y/y against 1.6 % y/y in October). According to GUS business tendency survey, the expected prices in retail sales, prices of industrial production as well as construction and assembly output have been gradually increasing since the beginning of 2006.

In October 2006 the annual growth rate of producer prices in industry amounted to 3.4% y/y as compared with 3.6% y/y in September (i.e. -0.3% m/m as compared with 0.0% in September), while the growth rate of producer prices in manufacturing – similarly to September – stood at 1.7% y/y. In October the nominal effective exchange rate of the zloty appreciated by 1.6% as compared with the previous year.

The latest data signal that in 2006 Q4 the annual CPI inflation may prove lower than expected in the October projection, while the “net” inflation will be in line with the projection. Despite the fact that in 2006 Q4 the CPI inflation will most probably be lower than expected, in the Council's

NBP

assessment, the medium term inflation outlook has not significantly changed as compared to that from October.

In the opinion of the Council, the currently observed strong economic growth creates favourable conditions for the implementation of reforms which would permanently contain the public finance imbalance. The Council maintains its belief that it would be the most favourable for Poland to adopt an economic strategy focused on creating conditions that would guarantee the introduction of the euro at the earliest possible date. The restraining of public finance imbalance would per se and by creating conditions for the introduction of the euro contribute to higher long-term economic growth.

The next meeting of the Council will be held on 19-20 December 2006.